UCITS

Thornburg Strategic Income Fund

Portfolio Manager Commentary

31 March 2024

Market Review

Economic data released during the first quarter of 2024 was supportive of the narrative that U.S. growth would not only remain resilient but resume a cyclically upward trend. Both nonfarm payroll releases in January and February exceeded analyst expectations, while the final measure of fourth quarter GDP was revised up from 3.2% to 3.4%. The downward trajectory in inflation remained stalled, with year-over-year CPI down only a tenth of a percentage point to 3.8%. Given this backdrop, Fed communication focused on patience and the need for better inflation data before committing to a rate cut. Markets repriced a higher for longer path, resulting in the 10-year U.S. Treasury yield rising from 3.88% to 4.20% over the quarter. Solid economic data helped keep the broader risk rally going, with spreads tightening across fixed income sectors and lower quality outperforming higher quality on a relative basis.

Attractive yields provide an offset to tight spreads given current macro uncertainties.

First Quarter 2024 Performance Highlights

- In 1Q24 the portfolio (I Acc share class) returned 0.68%, 1.15 basis points ahead of the Bloomberg U.S. Universal Index. Year to date the portfolio (I Acc share class) returned 0.68%, 1.15 basis points ahead of the Index.
- The portfolio's structural short duration position versus the index was the primary contributor in a quarter marked by rising rates. The portfolio held an average duration of 3.73 years for the first quarter.
- Our allocation to non-agency RMBS (CMO) contributed to relative performance as mortgage credit spreads tightened due to positive investor sentiment and continued robust housing fundamentals.
- Exposure to both investment-grade and high-yield corporates was beneficial, as credit performed well and consistent with the broader risk rally.
- Exposure to low-coupon MBS pass-throughs was a modest contributor to performance. The mortgage basis (i.e. spread between Treasuries and MBS) rallied into the quarter-end after initially widening earlier in the period.
- There were no material detractors from a sector perspective during the first quarter.

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Supported by the entire Thornburg investment team

AVERAGE ANNUAL TOTAL RETURNS (%) AS OF 31 MARCH 2024	QTR	YTD	1-YR	3-YR	5-YR	ITD (28 DEC 18)
Class A Acc Shares	0.44	0.44	4.79	0.00	2.06	2.47
Class I Acc Shares	0.68	0.68	5.71	0.77	2.85	3.27
Bloomberg U.S. Universal Index	-0.47	-0.47	2.67	-2.11	0.69	1.32
Blended Index	1.12	1.12	6.10	-0.20	2.82	3.67

CALENDAR YEAR RETURNS (%)	2023	2022	2021	2020	2019
Class A Acc Shares	7.30	-8.58	1.32	6.85	6.60
Class I Acc Shares	8.19	-7.96	2.16	7.64	7.40
Bloomberg U.S. Universal Index	6.17	-12.99	-1.10	7.58	9.29
Blended Index	9.04	-13.87	2.85	9.68	12.45

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted.

For performance current to the most recent month end, visit http://www.thornburg.com/ucits.

Source: Confluence
In US$ terms. **Returns may increase or decrease as a result of currency fluctuations.**
Returns for less than one year are not annualized. ITD is inception to date.
Share classes are accumulating and denominated in USD. See prospectus for additional share class listings.
The Blended Index is composed of 80% Bloomberg U.S. Aggregate Bond Index and 20% MSCI World Index.

Current Positioning and Outlook

The rally in risk assets over the past few months has contributed to a virtuous circle where household wealth gains have fueled better investor sentiment and could potentially serve as a tailwind for private consumption going forward. Recession is now the bear, not the base case, but firm data flow during the January through March period was also coupled with a few mixed signals. Consumer delinquencies continue a slow but consistent march higher, decoupling from a still tight labor market. Disposable income, on a nominal basis, has increased at a pace faster than pre-COVID trends, but real disposable income gains lag, suggesting the consumer is having difficulty keeping pace with inflation. These mixed signals will need to be monitored given the extent to which fixed income spreads have grinded tighter. Though recession is not a concern for now, it should be noted that over the past 70 years, it has taken an average of ten quarters after an initial Fed hike for a recession to occur. Markets cannot declare victory yet during this particular cycle, as we are currently only eight quarters past the first hike.

During the Fed's March meeting, the average dot for number of Fed cuts by year-end remained at three. The data flow, both on the growth and inflation front, do not support the ability for the FOMC to deliver on this forecast.

In the absence of recession, one cut appears to be far more appropriate, with inflation no longer showing any material downward momentum. Average hourly earnings growth (year-over-year) has stabilized in the mid 4% level, and the rebound in housing prices tends to be a leading indicator of the direction of core CPI. The fall election also looms over Fed decision making, and the FOMC will want to steer clear from policy decisions that could be interpreted as politically motivated.

Nominal and real yields pushed higher in the first quarter in response to the data and the paring of Fed cut rate expectations. We added rate risk into the sell-off, with duration positioned at 3.9 years as of early April versus 3.5 years to begin 2024. Meanwhile, agency mortgage-backed securities (MBS) continue to demonstrate compelling relative value versus high grade credit, although valuations are somewhat neutral versus non-agency RMBS. Our exposure is in low coupon pass-throughs which have discounted dollar prices and provide both attractive total return potential and fundamental diversification to credit.

Within non-agency RMBS (CMO), fundamentals remain positive given robust underwriting and low housing LTVs, with spreads on senior bonds attractive relative to investment-grade credit. Our exposure has been focused on non-QM, but we see good relative value additions within reperforming loan (RPL) securities. In ABS, our caution on the consumer continues as delinquencies slowly but consistently rise, though senior bonds with shorter weighted average lives are well protected and provide good front end yield. Although CMBS represents a small percentage in the portfolio, there have been select opportunities to take advantage of investor caution in the space to buy attractively priced bonds backed by strong, cash-flowing properties.

Spreads in both investment-grade and high-yield corporates continued their grind tighter in the first quarter. Within the latter, high single digit yields provide good total return potential and protection to wider spreads. However, spread levels do not compensate investors for uncertainty and the potential for higher defaults. On the credit quality stack, we prefer BBB corporates to the BB/B cohort as fundamentals look more appealing on a relative basis. Our investment-grade exposure, however, is focused on defensive, strong cash flow businesses. Spreads are also tight relative to history, but the new issuer calendar remains robust and therefore provides select relative value opportunities going forward.

Within emerging markets, valuations overall in the sovereign and corporate space are tight while interest coverage and leverage have ticked higher. While issuance is running well ahead of previous years, we find the compensation relative to quality to be largely insufficient. We are being highly selective on additions we seek to avoid macro tail risks. Potential opportunities include mispricing which may occur through the busy EM election calendar, as well as in countries where rate cuts may improve the economic outlook and outweigh any inflation or currency depreciation concerns.

THORNBURG STRATEGIC INCOME FUND

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